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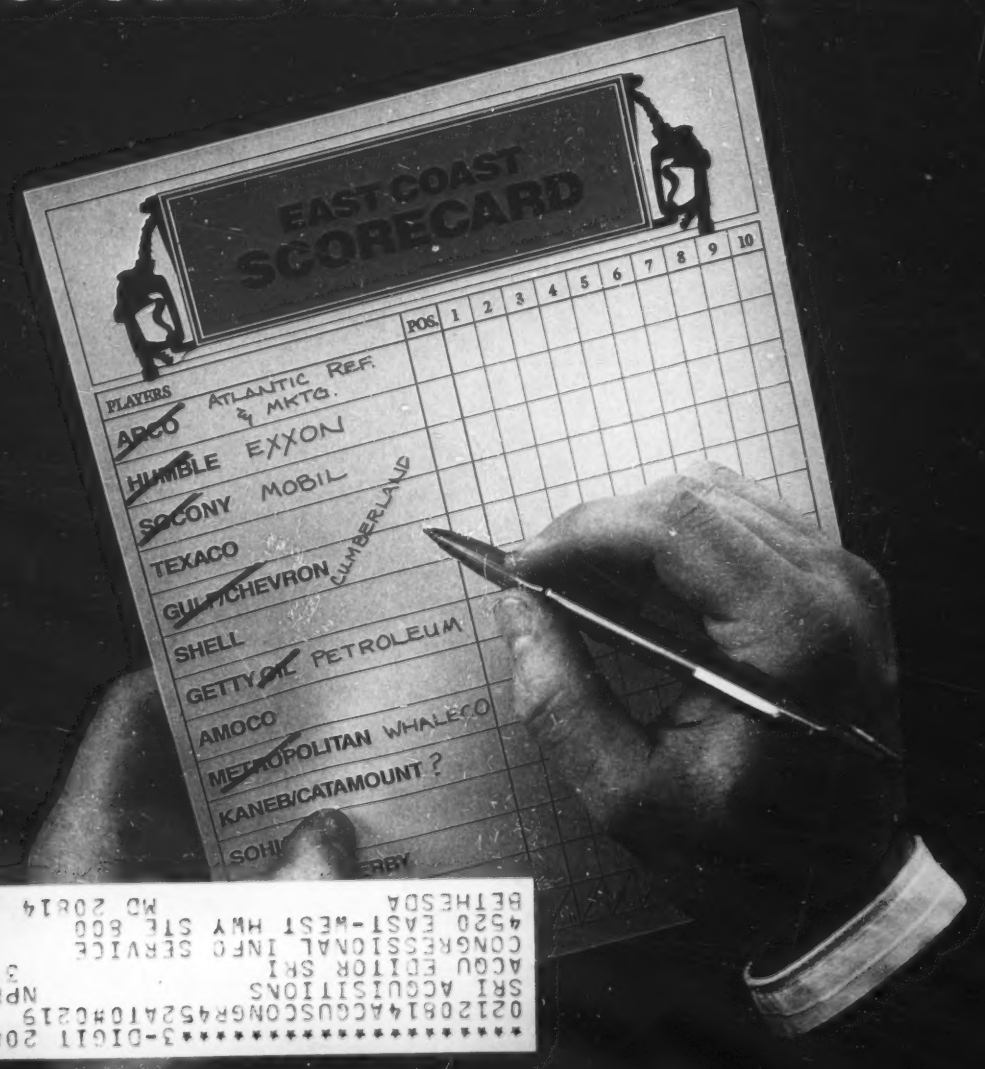
How Automation Helps Texas Jobber Grow
Proper Underground Tank Installation
Why Divorcement Laws Could Spread

NPN

The Changing East Coast Market



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NATIONAL PETROLEUM NEWS

AUGUST 1987 VOL. 79 NO. 8

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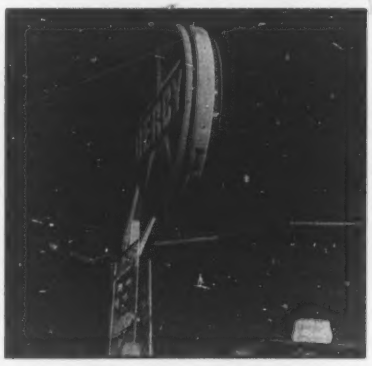
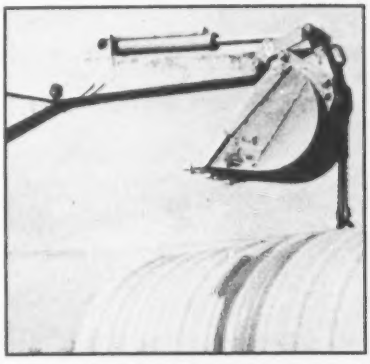
A new retail gasoline divorcement law is on the books in Nevada in part because of an internal "confidential" Arco document apparently asserting the company's intentions to eliminate dealer marketing. The fallout could be similar laws in other states. **Page 23**



Over the past 15-20 years, the East Coast has probably witnessed more change than any other part of the country. With changes still occuring at a breakneck pace, how is the marketer line-up shaping up for the years ahead? **Page 30**



The environmental protection agency's new underground tank regs will be in force early next year. But they won't protect anyone or anything if tanks aren't installed properly. **Page 44**

• TRENDS

Drilling Activity Rising: Sign of Better Times?

There are signs that the red corpuscle count in the oil industry's blood, which has been pretty anemic in recent years, may be increasing again and better times for suppliers and marketers could be ahead.

For example, current field reports say that more than 800 drilling rigs are active; and that seismograph teams are perking up in number as well as in spirit. Seismographic crews do the raw field research before drilling crews move in. Without them paving the way, there'd be little movement by drillers except for rank wildcatters who think drawing to an inside straight is perfectly normal in a high stakes poker game.

Don't be misled by that 800 number, however. It's much better than the 600-plus average for the first quarter of this year. And, compared with the same period of last year, it shows a significant gain. But again it's far, far below the peak number of 4,530 registered in the feverish days of December 1981.

The increased interest in drilling is a reflection of price improvements in crude oil and products. When crude prices plummeted to $10 bbl. in 1986, so did drilling activity and product prices. By June of this year, crude prices had struggled back an average of about $18 bbl. The futures market line had them above $20 bbl. at times.

But again, there's a caveat here: the futures market is a mirror image of speculator interest, not true market conditions, is fueled more by nonpetroleum opportunists than by direct petroleum interests. The game they play is to make a fast buck, not invest long-term. Thus futures markets are subjected to—and generally respond to—stimuli that's often as far-fetched as man-made scenarios can be hyped to be.

The binds that the industry finds itself strapped with these days are self-defeating. For example, independent marketers want to hang on to low-priced gasoline and fuel oil to encourage consumption. But they also need better cash flows to correlate to the higher economics of the $30 to $35 crude oil of recent years. So it is with the suppliers. They want to upgrade prices to build up cash flows which have to pay for the multi-billion dollar exploration and drilling programs. But they need the lower economics too to enable their downstream operations to compete. If it takes $20 crude oil to raise the red corpuscle count in the drilling field, this affirms contentions of many companies that $25 to $30 crude is essential for a renewal of the high-priced exploration programs of the past. Don't forget that exploration budgets were slashed in half in 1986—from somewhere around $70-billion to about $30-billion in the U.S. alone.

It must also be recognized that as long as exploration activities in the United States poop along at the current level, so will production from domestic oil wells. This production is and has been declining steadily in recent years—it's down 700,000 b/d now—and projections are that it will continue to slump indefinitely. It takes years for newly discovered oil to go from the bottom of the oil well to the gasoline and fuel oil tanks of consumers. Such a downslide also portends that U.S. dependency on foreign oil will continue to rise to levels where price spikes, such as those in the '70s, could be commonplace again. Remember, U.S. oil imports increased by more than 1-million b/d in 1986 and were up another 20% in the first quarter of 1987 over the comparable 1986 level.

The recent decision by the OPEC countries to continue the restraints of the immediate past suggests that there will be crude oil and product price stability for the balance of 1987, or, at the outside, some relatively modest increases. If OPEC produces no more than the 16.6-million b/d it has targeted for itself—and even including the probability that Iraq, which refused to sign the pact, will selfishly push that total to 18-million b/d—the probability is that crude prices could rise to $20 bbl by the end of this year. The "benefits" should be helpful, encouraging and worrisome simultaneously as they radiate up and down in the petroleum industry.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

MAY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.948	$0.888	$0.941	$1.079
Regions:				
Northeast	0.953	0.879	0.927	1.073
North Central	0.938	0.894	0.938	1.073
South	0.938	0.871	0.929	1.070
West	0.965	0.905	0.967	1.113

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	6/26/87	6/27/86
Gasoline (total)	230,436	228,006
Gasoline (Unleaded)*	34,892	120,074
Jet Kerosine	38,050	39,315
Distillates	102,527	104,547
Residual	37,901	37,968

**Included in gasoline total.*
Source: American Petroleum Institute.

Wisc., and Jeffersonville, Ohio, last year. The Los Angeles-based corporation now has about 90 truck lube centers at its Auto/Truck Stops nationwide, including 14 in the South, says Unocal spokesperson Jim Bray [*NPN*—Apr. 87, p13].

Big marketer turnout at joint convention

More than 900 attended the 32nd annual Mississippi-Alabama Oilmen's Convention June 21-24.

According to Jerry Wilkerson, executive director of the Mississippi Petroleum Marketers Assn., the key interests of marketers at the convention included slightly improved gasoline margins, new EPA underground tank regulations and insurance coverage. Alabama's underground tank cleanup fund was also a major topic, says Jeff Barber, executive director of the Alabama Oilmen's Assn.

Hines named AOMA executive director

Ann Hines, a 14-year veteran with the Arkansas Oil Marketers Assn., was appointed executive vice president of that association shortly before the group's Annual Convention in Hot Springs, Ark., in late June. Hines, who had served as AOMA's acting executive vice president after Bob Arnold resigned late last year, is now one of only a handful of female state association executives.

The convention set new records in attendance (612) and trade show booths (112). Hines notes that although there was concern about impending federal excise taxes and underground tank regulations, the mood of marketers at the convention was upbeat and positive.

Tune-Lube Corp. plans expansion

The professional auto racing circuit isn't the only place three-time Indianapolis 500 winner Johnny Rutherford intends to make his mark.

Rutherford is chairman of the board of Johnny Rutherford Tune-Lube Corp., a San Antonio, Texas, chain which he formed in 1984, and is now leading an aggressive expansion program.

He plans to establish over 300 Tune-Lube centers by 1990 via a master franchising program which offers exclusive rights to protected U.S. territories. The corporation has already received commitments to build 103 centers in New Jersey and Michigan.

Unlike other tune-up and lube outlets, the Rutherford centers provide simultaneous tune-up and oil change services.

With the closing of more than 150,000 full-service stations and 3,000 car dealerships over the past 10 years, Rutherford says, consumers have been left holding the bag in terms of car maintenance.

Is a Methanol Marketing Niche Shaping Up in the West?

Methanol as a neat or near-neat motor fuel is a long way from gaining general consumer acceptance anywhere in the world, but it is beginning to become an issue for gasoline marketers to take cognizance of in California and perhaps neighboring states.

Arco has already announced plans to market a methanol motor fuel at 25 stations in southern California by the end of 1988 [*NPN*—July '87, p18] in a cooperative program with the California Energy Commission (CEC).

Chevron has reported since then that it has told the CEC it is willing to offer methanol at selected stations in California, depending on the number and location of methanol vehicles. Conversations are understood to be going on between CEC and other oil companies.

Since California began exploring methanol as an alternative motor fuel eight years ago, a chain of about 24 methanol stations has been set up in the state, operated by independent marketers under contract. The methanol fuel currently being distributed is M85, which is 85% methanol and 15% unleaded gasoline.

Presumably other major oil companies, and perhaps some independents, will also cooperate with the state in establishing a retail methanol network, so that in this limited sense, methanol marketing is already here.

California has other plans to overcome the chicken-and-egg dilemma, including mandatory marketing of mixed-fuel vehicles in the state. These are vehicles which can operate alternately, with the flick of a switch, on either gasoline or methanol fuel [*NPN*—July '87, p14].

Nobody except perhaps a small circle of devotees in the California energy bureaucracy is seriously considering that methanol will become a widely available motor fuel before the next century, in all probability, but it's just possible that some marketers could already be taking steps to get a jump on what appears to be developing as a niche.

How fast a market could develop, under what circumstances, and at what cost, was the subject of CEC hearings held in preparation for a biennial report the agency must make to the state legislature.

At a hearing in Los Angeles in June, Chevron and Unocal made it clear there is nowhere near enough methanol in the world to supply it as a transportation fuel in California or anywhere else, and that building the plants to do so would cost many billions of dollars.

As a case in point, Unocal's manager of planning and economics, E.J. Eliskalns, cited southern California with its gasoline demand of about 6-billion gal. a year. Since it takes about 1.8 gal. of methanol to equal 1 gal. of gasoline, this translates into a methanol demand of 10-billion to 11-billion gal. a year.

"This volume by far exceeds the entire free-world production capacity," he said, which is about 7-billion to 8-billion gal. a year. Of that total, about 1-billion gal. a year is currently surplus, with approximately half of that in the U.S.

Moreover, he said the marketing distribution system would have to be 80%-90% larger to handle methanol rather than gasoline, requiring construction of more

Four Scenarios: Price of Methanol vs. Worldwide Demand, Including for Transportation Use, 1990-1995-2000

(millions of gal., cents per gal.)

	California				United States			
	Low Demand		High Demand		Low Demand		High Demand	
Year	Demand	Price	Demand	Price	Demand	Price	Demand	Price
1990	3,200	36¢	3,220	36¢	3,200	36¢	3,350	36¢
1995	3,930	40	4,010	40	4,890	45	16,900	50
2000	4,830	45	4,950	45	8,950	46	31,700	55

Source: Jack Faucett Associates, Bethesda, Md.
Note: Prices are ex-dist, FOB Los Angeles, 1986 dollars.

pipelines, storage tanks and trucks.

As for price, Eliskalns estimated methanol produced from natural gas costs about 60¢ per gal., or about $1.10 per gal. of gasoline equivalent, and from coal about $2.15 per gal. of gasoline equivalent, compared with the present pretax wholesale price of gasoline in Los Angeles of 56¢ per gal.

Chevron USA's manager of strategic planning, Martin A. Javinsky, told CEC that despite methanol's relatively low cost now, eventually the cost of using methanol as a transportation fuel could be huge. "We shouldn't be fooled by today's methanol prices," Javinsky said, "Any sizable displacement of gasoline by methanol will carry a sizable cost."

For example, to replace gasoline with methanol in California "would require about four times the total methanol capacity of the noncommunist world." This would require about 100 methanol plants of 250-million gal.-a-year capacity with a price tag of $20-billion to $30-billion, he said.

Although CEC and others claim the price of methanol would be even lower in the future because of the large quantities involved in transportation, some don't think so. Michael F. Lawrence of Jack Faucett Associates (JFA), a research firm based in Bethesda, Md., told CEC that in the range of scenarios the company considered, "the price of methanol increases as the demand for methanol increases."

JFA considered high and low methanol consumption scenarios in California and the nation for the years 1990, 1995 and 2000. Even in the case of high demand nationally, including transportation, the price of methanol (FOB Los Angeles, excluding taxes, 1986 dollars) would be 50¢ gal. in 1995 and 55¢ in 2000, compared with 36¢ in 1990 (see table).

Chevron's Javinsky said methanol may be able to compete economically with gasoline and diesel fuel, but only in the long run, "perhaps early in the next century—assuming crude oil prices have doubled or tripled (in today's dollars) by then—coming from such remote locations as Alaska, the Middle East, Indonesia, and Africa.

The remote locations have large supplies of natural gas with no nearby markets, and are presumed to be the ones that would supply most of the huge methanol requirements for transportation.

This dependence on remote supplies raised a question by a Chrysler planning specialist, Beverly Bunting, who said, "Since one intent of a methanol program is to promote energy security, we caution against trading our present dependence on foreign oil and gasoline for future dependence on foreign methanol."

These and other statements established pretty clearly that widespread use of methanol as a motor fuel is some distance down the road. But how fast the fuel comes into some practical level of use depends on what California decides to do.

It could be that a niche is in the making. Some niches have proven to be very profitable. Unocal's successful sale of leaded premium gasoline for many years after other major companies stopped marketing the product is a lesson gasoline marketers might remember.

Colorado requires oxygen in gasoline

Colorado's regulation that all retail gasoline sold on the "front range" in the winter must contain 1.5% of oxygen by weight is going ahead despite opposition by several oil companies and the jobber association.

In late June, the Colorado Air Quality Control Council decided to begin requiring the fuel modification Jan. 1, 1988, instead of Dec. 1, 1987, giving refiners and marketers another month to get ready.

Oil companies had hoped Colorado would call off the program or at least postpone it until more was known about the effects and cost. Originally the rule was supposed to go into effect Nov. 1. In future years, the oxygen content will have to be 2%.

Colorado believes the burning of oxygenates in gasoline from Fort Collins to Colorado Springs from Nov. 1 to March 1 will help reduce carbon monoxide pollution that peaks during those months. Refiners usually use MTBE (methyl tertiary butyl ether) for this purpose, while blenders usually use ethanol.

The combination of the two can be a big problem, says Roy Turner, executive vice president of Colorado Petroleum Marketers Assn., Denver. The presence of both volatile components can cause vapor lock. Pump labeling may help, but considerable public education would be required to make it work.

He reports some refiners believe MTBE blending will raise the price of gasoline 3¢-8¢ gal. This could cause some distribution dislocations since some gasoline manufactured in Denver is transported to areas where oxygenates are not required.

Marketers expect more C-stores

Petroleum marketers are expecting the further spread of convenience-store stations in the West, if that's possible. In a market some already consider saturated, the announcement that Kroger Co.'s Dillon C-store organization had acquired an independent regional chain based in Casper, Wyo., wasn't the best of news.

The 115-store Mini Mart chain was sold by Rod Kinskey, who started expanding 20 years ago from a string of dairy outlets. Gasoline is sold at 111 of the units, located in Colorado, Nebraska, Wyoming, Montana and the Dakotas.

Dillon, based in Hutchinson, Kan., was purchased by Kroger three years ago. Prior to the Mini Mart acquisition, it had 740 C-stores under various names operating coast to coast. Loaf 'N Jug in Colorado and Quick Stop in California are two of its other brands.

NEFI Show and Convention Draws Record Attendance

Fear not about the future of New England Fuel Institute. The overflow crowds at its 22nd biennial trade show and several SRO sessions at its Silver Anniversary convention in Boston in June are considered eloquent testimonials in their own right that NEFI continues to enjoy solid support in the northeast.

There had been some concern in industry circles that the association might have more problems on its hands than it knew what to do with in the wake of the retirement of the long-time president, Charles Burkhardt, and the abrupt resignation of his successor after only three months in the saddle [*NPN*—Sept. '86, p40].

The resignation caught just about everyone flat-footed and there were questions about whether NEFI would be able to handle things without a dominant leader in the house.

The NEFI board elevated administrative vice president Bernard Smith, a longtime staff member, to acting president. It also began a self-analysis of its operations and programs to respond to internal pressures for change and expansion "beyond Boston." Some industry people had their

Forecast Confirms $1.04 gal. Gasoline, But Not Until Next Year

It's going to take a bit longer to get there but government forecasters now anticipate the average retail price of gasoline will be around $1.03 to $1.04 gal. in the first half of 1988. This is the all-types average, meaning all grades and services.

The government, in its first 1987 projections back in January [*NPN*—April '87, p28], had indicated the $1.03 level would be attained in the third quarter of this year—July, August and September, when the summer driving season is underway in earnest. Instead, pump retails are expected to be around $1 gal. during this period.

Relatively flat street prices and high stocks throughout the first half of 1987 were blamed for pushing the anticipated increases back a bit, according to the Energy Information Administration's latest short-term energy outlook, dated April but not published until late May.

At that, however, the 1987 average of 97¢ gal., as now projected, will be 4¢ gal. above the 1986 average. The first-half 1988 average of $1.03 will be 6¢ gal. above 1987 and a full 10¢ gal. above the full year 1986.

Even though that looks good, however, it must be remembered that it's still another 10¢ below the 1984 and 1985 averages of $1.20 gal.

Diesel fuel will fare better this year, rising 5¢ gal. in 1987 and 7¢ gal. more in the first six months of 1988, the forecast says.

Gasoline demand will be about the same this year as last, and a slight decline of maybe 10,000 to 12,000 b/d is in sight for the first half of 1988.

The ratio between unleaded and leaded

Short-Term Forecast: Minor Improvements in Sight

By The Years

	Projections		History		
	6 Mos. 1988	F.Y. 1987	F.Y. 1986	F.Y. 1985	F.Y. 1984
DEMAND (million b/d)					
Motor Gasoline (total)	6.90	7.02	7.02	6.83	6.77
Leaded	1.61	1.76	2.17	2.43	2.78
Unleaded	5.30	5.25	4.85	4.41	3.99
Distillate Fuel Oil	2.98	2.87	2.90	2.87	2.84
% Unleaded vs. Leaded	77%	75%	69%	65%	59%
Residual	1.32	1.26	1.40	1.20	1.37
Total U.S. (a)	16.07	16.13	16.14	15.73	15.73
(a) Includes all oils.					
PRICES (per gal.)*					
Motor Gasoline**	1.03	.97	.93	1.20	1.20
No. 2 Diesel	1.00	.93	.88	1.15	1.15
No. 2 Heating Oil					
Wholesale	.57	.52	.49	.78	.83
Retail	.89	.82	.84	1.05	1.09
Residual***	.43	.40	.34	.61	.69

By The Quarters

	Projections						History	
	1988		1987				1986	
	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q
DEMAND (million b/d)								
Motor Gasoline (total)	6.65	7.15	6.62	7.23	7.18	7.04	6.64	7.09
Leaded	1.55	1.66	1.69	1.89	1.80	1.67	2.15	2.27
Unleaded	5.10	5.49	4.93	5.33	5.39	5.36	4.49	4.82
% Unleaded vs. Leaded	77%	77%	74%	74%	75%	76%	68%	68%
Distillate Fuel Oil	3.28	2.67	3.22	2.69	2.54	3.03	3.28	2.73
Residual Fuel Oil	1.48	1.15	1.35	1.23	1.21	1.24	1.42	1.34
Total U.S. (a)	16.36	15.77	16.21	15.91	15.99	16.42	16.06	15.86
(a) Includes all oils.								
PRICES (per gal.)*								
Motor Gasoline**	1.02	1.04	.90	.97	1.00	1.00	1.10	.93
No. 2 Diesel	.99	1.01	.89	.91	.95	.97	1.04	.87
No. 2 Heating Oil								
Wholesale	.57	.56	.50	.52	.52	.54	.61	.44
Retail	.90	.87	.79	.78	.81	.89	.97	.77
Residual***	.44	.43	.41	.40	.40	.41	.47	.31

* All prices include taxes except No. 2 heating oil; ** Average price for all grades and all services; *** Average price for all grades of sulfur.
Source: Energy Information Administration, Short-Term Energy Outlook, April 1987, published in late May.

gasolines continues to expand in favor of the new motor fuels. The 1987 average is expected to be 75% for unleaded and the first half of 1988 is expected to see another rise to 77%. This confirms the continuing trend that by the early 1990s leaded gasoline sales will be down to 10% or less of the national market.

No. 2 heating oil demand is expected to be up modestly this year, but average prices are expected to be down 3¢ gal. at wholesale and 2¢ gal. at retail.

Residual, which experienced a 17% increase in 1986, is facing a 10% drop this year and continuation of the decline pattern in first half 1988.

Domestic crude oil production, the forecasters say, will average 8.2-million b/d in 1987, down 5.4% from 1986, while net imports of petroleum—crude and products—will average 5.7-million b/d, up 7% from 1986. Imported crude oil is projected at $17.80 bbl. in 1987, up 27.3% from 1986's disastrous low average of $13.98.

Divorcement Legislation Remains at a Standstill

Not much movement is anticipated on federal retail divorcement legislation—the Motor Fuel Sales Competitive Improvement Act—sponsored by Sen. Howard Metzenbaum (D-Ohio).

The bill would keep the top 15 refiners from operating stations directly with their own employees or with contract management. Although they could still own stations, the refiners would have to lease their operations to dealers to run them. Moreover, the bill's "open supply" provision would, according to Metzenbaum, "prohibit refiners from requiring that service stations purchase all or almost all supplies from a single source."

The PMAA reaffirmed its opposition to the bill at its recent spring convention in May. The association's communications director David Morehead states that, "The answer to headaches is not decapitation. If refiners won't be allowed to operate stations, who is going to say jobbers won't be next?"

SSDA asserts that "this bill is necessary if American motorists are to continue to enjoy the benefits of a truly competitive retail gasoline market . . . Retail divorcement simply prevents major refiners from operating retail outlets and manipulating the retail market by exerting their inherent control over their franchised dealers."

The American Petroleum Institute (API) disagrees, stating that a study by two Purdue University professors shows that a state divorcement law in Maryland has cost consumers ". . . millions of dollars in higher gasoline prices" and reduced the number of hours open by more than nine hours a week.

Health Insurance Bill Faces Stiff Resistance

Sen. Edward M. Kennedy (D-Mass.) says the bill he introduced for mandatory employer-provided health insurance "will require that every working American have access to at least a minimum package of health insurance," but not "Cadillac plans for first dollar coverage . . ."

The bill, which would affect an estimated 24.3-million persons, calls for a minimum of 80% of the cost of medically-necessary hospital services (with no annual limit on the number of days), physicians, diagnostic tests, plus pre-natal and well-baby care. Co-pays would be limited to 20% of the fee for any service. Deductibles would be held to $250 a person or $500 per family and pre-natal and well-baby care would have no co-pays or deductibles. Catastrophic illnesses would be included with out-of-pocket expenses limited to $3,000. These figures may change during debate on the bill.

Employees earning less than 125% of the federal poverty line would pay nothing and no worker could be excluded from the coverage or subjected to pre-existing conditions based on health status, a provision included in some private plans. Employees working less than 17½ hours a week would not have to be covered. New, small businesses—those less than two years old with less than 10 employees—would have to supply only catastrophic coverage.

The plan's cost to employers has been estimated at $20-billion, but Kennedy says the price to individual employers per person would be about 40¢ an hour.

Strong opposition is expected to the bill from small and medium-sized business groups, including the Society of Independent Gasoline Marketers of America (SIGMA), the National Assn. of Convenience Stores (NACS), the Petroleum Marketers Assn. of America (PMAA) and the National Assn. of Truck Stop Operators (NATSO). Although the American Petroleum Institute (API) and the Service Station Dealers of America (SSDA) had not taken a position as of June, SSDA says it is "not happy" with the legislation as written.

One possible snag in the Kennedy plan could be a proposed requirement by Sen. Dan Quayle (R-Ind.) which calls for "an objective analysis of the impact of any legislation mandating benefits on domestic employment and American competitiveness." The Small Business Administration has testified that mandated health benefits might cause some small companies to fire workers, thereby raising the numbers of the uninsured.

Governor Vetos Maryland Station Security Bill

Maryland's Governor William D. Schaefer vetoed a bill which would have imposed tough new security measures at all night service stations.

The bill, passed in the state's House by 121-0 and Senate by 33-13, was strongly supported by the Greater Washington-Maryland Service Station and Automotive Repair Dealers Assn. and the Service Station Dealers of America. Among the bill's opponents were Sun Co. and Mobil Oil, as well as, Crown Petroleum Corp., a Maryland-based oil company which requires its stations to be open 24 hours.

The bill would have applied to stations open at least 18 hours a day, but not to convenience stores, and allowed until the mid-1990's to fully comply with its requirements. Among these requirements were building "armored kiosks" with bullet-proof windows, using heavy duty bolts, operator controlled locks, secure cash drawers and remote controlled pumps.

Crown Petroleum chairman Henry A. Rosenberg, Jr., claimed in a 12-page letter to Governor Schaefer and in a subsequent veto hearing that the bill was "irrationally discriminatory . . . prohibitively costly . . . unconstitutional . . . vague and ambigious." He predicted that the price of security, up to $60,000 per station according to his estimate, would be passed on to consumers.

However, Roy Littlefield, executive director of the dealers' association, estimated the security cost per station to be only $6,000. At the veto hearing, Littlefield asserted that Crown dealers said, "If Crown would put in the security, we'll pay for it."

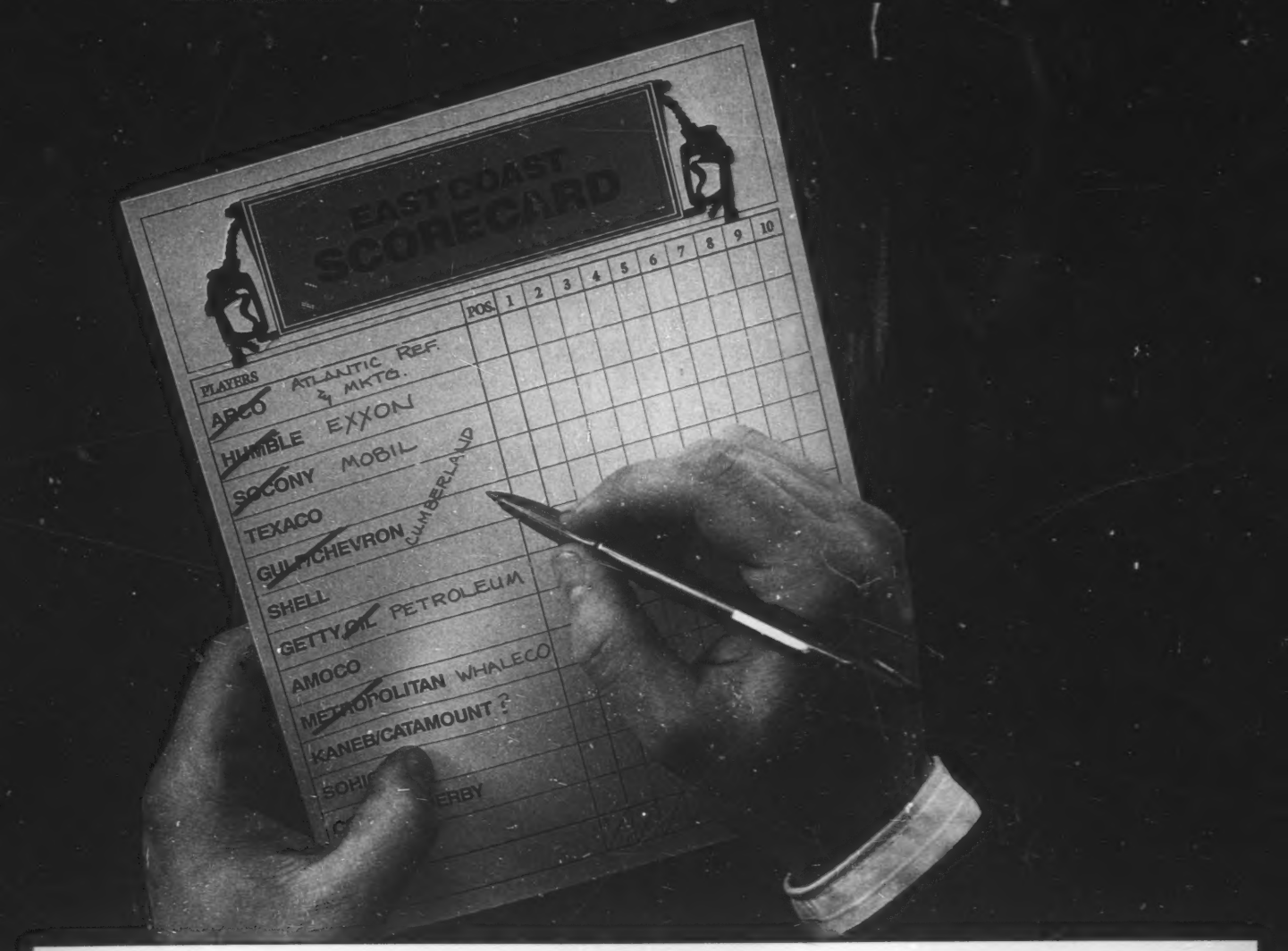
The odds for a veto increased at the hearing when Lt. Gove. Melvin A. Steinberg was very critical of the bill.

The Mid-Atlantic Petroleum Council and the Maryland Petroleum Council remained neutral on the proposed legislation. The National Assn. of Convenience Stores, the National Assn. of Truck Stop Operators and the American Petroleum Institute took no stand.

The Maryland legislature was the first in the nation to endorse strong security measures for all night stations.

COVER REPORT

The Changing East Coast Market: What's The Score?



As a marketplace—or, better yet, a contiguous network of big, small and interrelated businesses from Maine to Florida—the East Coast isn't the least bit unique in the way it buys, sells and consumes billions of gallons of oil.

That, however, is only one side of the coin. The other side is different, vastly different, because it concerns the thousands of suppliers and vendors of these billions of gallons of gasoline, fuel oil and similar products, and the regional enterprises and systems that sometimes eat each other alive.

Over the past 15 to 20 years, for example—the time span it takes for newborn tykes to get from swaddling clothes to commencement mortar boards—the East Coast has probably witnessed more pressure-pot change than any other section of the country, including the always volatile Pacific Coast [*NPN*—May '87, p34].

The last half dozen years alone border on the fantastic.

Consider, for example, the explosive story of Getty Petroleum Co. Five years ago Getty, then known as Power Test Corp., was a nonentity in marketing, hardly known in or out of its five-state surroundings. In 1984, it jumped suddenly into 11 states, 2,500 stations and refined product volume of 1.5-billion gal. a year when Power Test bought Getty Oil Co.'s East Coast marketing facilities. Last fall, it was dreaming about additional expansion, preferably national in scope [*NPN*—Oct. '86, p44]. Today it's on the verge of extending its "empire" to 23 states, 3,500 service stations, two refineries, and refined product sales around 3.5-billion gal. with its $450-million offer for Clark Oil & Refining Co. in the Midwest (See related story on Page 12).

Consider, for example, the Cumberland Farms extravaganza. As recently as three years ago, its chief claim to fame was its ranking as the third largest convenience store chain with maybe 300-million gal. of gasoline sold at half of its skein of 1,000 stores up and down the East Coast. Today, it is the nation's biggest independent re-

By J. Richard Shaner
Executive Editor

tailer of gasoline with a volume in excess of 2-billion gal. and a virtual stranglehold on an old 100,000 b/d refinery in Newfoundland that's being rehabilitated for its exclusive use and is scheduled to come on stream later this summer.

Consider, for example, the rise and fall of Charter Oil Co., which soared out of Florida and up to Maine in 1982-83 as a high flying marketer of gasoline and fuel oil and a volume of close to 350,000 b/d of mixed product. Today, just out of Chapter 11 bankruptcy, it's struggling to hang on to its original network of service stations and C-stores in the south and southeast and its resid operations in the midlands. It has sold off most of the other stuff and even walked away from joint ownership of a refinery with Chevron in the Bahamas. Its disposal of Northeast Petroleum brought a Goliath, Cargill, Inc., (the billion-dollar international grain trader and cargo hauler) into the Northeastern marketplace as a wholesaler with a determination to expand the toe hold it had gotten in its $100-million "bargain."

Consider, for example, the spectacular emergence of derring-do enterpreneurs like John Deuss, a virtual recluse as far as the domestic industry was concerned, an international broker who created Atlantic Refining and Marketing Co. in 1985 and now says he wants it to be doing 500,000 b/d by 1990; or Irik Sevin, a young ex-Wall Streeter who bought a broken down fuel oil business in 1982 and converted it into the largest in the nation, with a retail volume of more than 250-million gal. a year; or Egyptian-born Mahmoud Wahba, who gave up teaching in New York City to buy a small Connecticut jobbership, doubled his volume past the 100 million gal. mark with the surprise purchase of four other jobberships from the retreating Chevron, and is now aiming at 150-million gal. in the immediate future. All this in two or three years!

Consider, for example, the near-collapse of the residual fuel oil business which, as recently as 10 years ago had an annual sales volume of more than 1-billion bbl., most of it on the East Coast. Today it does less than half of that. And look at the distillate market which not only is important to the East Coast but has shrunk too, down more than 25% in recent years with an attendant loss of customers and the independent businesses that supplied them.

There are other examples—many more that could be cited easily.

These few, however, give some dimension to the turbulence and change in recent years that have been reshaping the Atlantic Coast marketplace. For the purposes of this article, this East Coast marketplace is considered to be the six New England and three Middle Atlantic states and the six southern states whose shores are readily washed by Atlantic Ocean waters.

Static Volumes

An interesting aspect of this East Coast picture is that the market volume of gasoline really hasn't changed that much through the years. In 1970, the U.S. as a whole consumed roughly 80-billion gal., of which the East Coast accounted for 34%. Today the U.S. volume exceeds 110-billion gal., and the East Coast relationship is still only 35%.

The service station population on the East Coast has declined too, just as it has in the rest of the nation. Today there are probably 50% fewer stations than there were in the early '70s. But the surviving stations are bigger, better located and better equipped to handle much larger volumes. Except for New Jersey, where self-service is still banned, most of the East Coast stations offer the do-it-yourself formula.

Fifteen to 20 years ago, good stations averaged around 30,000 to 35,000 gal. monthly and the woods were full of 10,000 to 15,000 gal. "Mom and Pops." Now, 100,000 to 200,000 gal. month stations are commonplace. Getty recently said it had one doing 500,000 gal. month, a level more typical of the Southwest and West Coast than the East Coast.

Name Changes

One of the truly remarkable changes that has taken place on the East Coast is the lessening of major company dominance.

A few decades ago, for example, there were at least a dozen corporate names of great and continuing importance in the East, including such now all-but-forgotten identities as Sinclair, Humble, Tidewater, Richfield of New York, Atlantic Refining of Philadelphia and so on. They were absorbed in the passing or changed, such as Humble which became Exxon when Esso couldn't be used because of legal restrictions; and Richfield, Atlantic and Sinclair which became part of the brash youngster named Atlantic-Richfield Co. in the late '60s; Standard Vacuum, thence Socony Vacuum, thence Socony Mobil and now Mobil in its own right; Tidewater which was replaced by the corporate name of Getty Refining and Marketing which became known, in substance, as Getty East.

By way of contrast, this galaxy of majors and semi-majors has been reduced to maybe a handful at best: say Exxon, Texaco, Mobil, Shell and Sun. Getty has been salvaged as a corporate name by Power Test which stepped aside a year ago and became a subsidiary. So has Atlantic, whose history dates back to the 1860s. It has been reincarnated by the new Atlantic Refining and Marketing Co. of John Deuss [*NPN*—Dec. '85, p30].

Marketplace dominance also has changed. Humble not all that long ago held the biggest market shares in more than half of the Atlantic seaboard states, with Mobil a reasonably close second. Today, it's pretty well Shell and Mobil, especially in New England where Amoco and Exxon have retrenched considerably. Amoco, for example, seceded from Maine, Vermont and New Hampshire in 1982, and last summer pulled out of Massachusetts, Rhode Island and all of Connecticut except the affluent southwestern corner abutting New York state.

Arco's decision to abandon all marketing east of the Rockies and Chevron's withdrawal from the East Coast, except for a small segment in the midlands, also have had dramatic impact on the distribution systems. So has the retreat from New England by Amoco and the strengthening of their positions in this marketplace by Shell and Mobil, both of which have been selectively buying stations. Shell hit a jackpot, however, when it acquired more than 400 ex-Arco stations in the northeast, all big volume units.

Residual Gulf Problems

Chevron's withdrawal opened the door for Cumberland to purchase all of the Gulf stations acquired by Chevron in its acquisition of Gulf in the early '80s, and more than 5,000 Gulf-Chevron stations in the Southeast by Standard of Ohio, which put them under subsidiary BP and moved into a whole new world.

Chevron held on to a group of stations in the Maryland, D.C. and Virginia areas and the old Gulf refinery in Philadelphia and said it planned not only to stay here but to build up its business volume.

This creates a unique situation in the use of the Gulf logo, not so much for the

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Former all-stars in the Eastern marketing league

1. Arco, onetime East Coast biggie, saw greener pastures on the other coast and pulled up stakes three years ago.
2. A "Tiger-In-Your-Tank" gained fame for Humble, former East Coast market kingpin, now Exxon. Company donated Royal Bengal tiger "Bamboo" to the Baltimore zoo.
3. The frame tells the name of this outlet of a major Eastern marketer of years past. Did you guess Tidewater Oil's "Flying A"?
4. Chevron, a major East Coast player until recent years, now confines itself to the Maryland, D.C., Virginia area.
5. The Gulf flag still flies in Eastern markets, but under different ownership: Cumberland in the Northeast, Sohio/BP in the Southeast.

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present but in the days to come. Cumberland Farms says it has evergreen entitlement to the use of Gulf in the Northeast and has no intention of letting the name die. Sohio/BP also has been guaranteed use of the Gulf logo in the Southeast for a period of eight to 10 years, or longer.

Since both companies operate from Maine to Florida, will the day come when the Gulf logos bang into each other at the midlands? Or will some future date cause a serious conflict of identities and market strategies with two different companies using the same name in parallel territories?

Major Traumas

Probably the biggest "happenings" on the East Coast in recent years were the withdrawals of Arco and Chevron from the marketplaces; Arco especially because it meant the elimination of an extremely difficult competitor whose low prices caused many jobbers and retailers to go right up the wall at times.

As an exponent of C-stores, self-service and big volume stations with small margins, Arco rolled the East Coast marketplaces just as it did elsewhere in the country.

In leaving, however, Arco enabled Shell to buy a little more than 400 exceptional stations in New England. It also led to the unexpected entry of Dutch-born John Deuss, an international oil trader with U.S. offices in New York and Houston, into the retail gasoline markets in New York and Pennsylvania.

1987, and a new line-up emerges

6. Coastal Oil has recently announced intentions of expanding in the East with its Derby brand.

7. International oilman John Deuss is shooting for a half-million b/d volume by 1990 with his Atlantic Refining and Marketing Co.

8. In three years, Cumberland Farms has become the nation's top ranked independent retailer of gasoline.

9. Getty Petroleum, born Power Test, is the fastest growing gasoline retailer, just recently expanding to 23 states and 3,500 stations.

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He started out with 500-odd stations and supply contracts in these two states; currently he is supplying almost 1,000 stations in eight states. He says he's moving 200,000 b/d of product now (including fuel oils) and wants to expand from Maine to Florida so that he can achieve a goal of 500,000 b/d by 1990. That figure, 500,000 b/d, equates to a staggering 7-billion gal. of gasoline, distillate and resid.

Chevron's departure from the Northeast and Southeast made a frontrunning gasoline retailer out of Cumberland Farms and thrust Sohio/BP into the southeastern marketplaces where competition for volume is almost as rough as that on the West Coast.

Not given to talking about itself, Cumberland is family owned and operated. Since its $500-million purchase of the Gulf-Chevron network in the Northeast, however, it has assidously applied itself to repositioning the C-store business into a major gasoline network, all the time saying nothing more publicly than it really had to.

It has successfully soothed the jobbers and retailers it got from Gulf. It has relocated its gasoline headquarters into a new building which can house all of the expanding petroleum units. It has built up its sales and marketing staffs and has let it be known that its interest in additional expansion is eager and active.

One of its slickest accomplishments was the Newfoundland refinery deal in which the virtually abandoned facility is being rehabilitated by a Massachusetts investment group, with Cumberland to

East Coast boxscore: Indies up, majors down

East Coast Marketplace: Gasoline Goes Up While Fuel Oils Slip Badly

The gasoline and fuel oil marketplaces on the Atlantic Seaboard are studies in contrast—one keeps going up, in lock step with the nation, while the other continues to erode for a variety of reasons, including natural gas competition and environmental pressures.

Gasoline consumption on the East Coast is up 20% since 1970. There's nothing really surprising about that because national consumption has grown too, a bit more perhaps, but nevertheless comparably.

If anything can be considered surprising, it's the contra-industry increase in distillate fuel demand in the Carolinas, Georgia and Florida. This reflects the greater use of diesel-powered trucks in the coastal states.

The distillate and residual fuel oil statistics confirm the continuing erosion of light and heavy fuels in the space-heating marketplaces. Distillate sales, for example, are still 1-billion bbl. a year for the country as a whole but on the East Coast, and particularly the Northeast, they're down dramatically.

It hasn't been that long since more than half of the distillate sold in the U.S. was consumed on the East Coast, most of it in the space-heating marketplaces. Today, that consumption relationship is down to 35% too.

The diesel share has grown rapidly at the same time. From a mere 20% in 1970, it has almost doubled to 39%, and indications are that this growth will continue for some time.

supply all of the crude oil and buy all of the product—60,000 b/d of gasoline and 40,000 b/d of distillate and resid for its own outlets. In substance it has all the advantages of being a refiner-marketer without the investment cost and responsibilities of actually being a refiner. Some industry sources said this could give Cumberland a 2¢ to 4¢ edge in gasoline prices. The refinery was scheduled to come on stream this summer. This influx of new product could stir things up in marketplaces already oversated with goods to sell. Cumberland recently extended its 90,000 b/d contract with Chevron so that it seems to be in solid position for its supplies for an indefinite period.

Fuel Oil Panorama

The East Coast traditionally has been the greatest marketplace of all for distillate and residual fuel oils. But this has been deteriorating lately.

As recently as 1978, distillate fuel oil

Principal Product Consumption 1970-1986

	1970	1975	1980	1986(*)	% Chng '86 vs. '70	'75	'80
GASOLINE (billions of gal.)							
New England	4,695	5,238	5,179	5,620	20	7	8
Middle Atlantic	12,658	13,845	13,634	14,119	12	2	4
South Atlantic	13,803	16,430	17,178	19,288	40	17	12
East Coast Total	31,156	35,613	35,991	39,027	25	10	8
U.S. Total	89,405	104,507	106,378	111,797	25	7	5
% East Coast	35%	34%	34%	35%	—	—	—
DISTILLATE (millions of bbl.)							
New England	117.1	109.7	85.4	74.9	(36)	(32)	(12)
Middle Atlantic	238.0	229.8	193.3	154.6	(35)	(33)	(20)
South Atlantic	114.3	122.9	136.3	139.7	(23)	(8)	(3)
East Coast Total	469.4	462.4	415.0	369.2	(21)	(20)	(11)
U.S. Total	927.3	1,043.7	1,086.7	1,046.8	13	—	(4)
% East Coast	51%	44%	38%	35%	—	—	—
RESIDUAL (millions of bbl.)							
New England	149.9	119.5	97.6	35.9	(76)	(70)	(63)
Middle Atlantic	286.6	240.0	200.9	101.6	(64)	(56)	(49)
South Atlantic	151.0	104.1	175.8	64.8	(57)	(65)	(63)
East Coast Total	587.5	463.6	474.3	202.3	(76)	(63)	(57)
U.S. Total	804.3	898.6	937.5	438.3	(46)	(51)	(53)
% East Coast	73%	52%	50%	46%	—	—	—
HEATING OIL'S CHANGING VISTAS							
Distillate Used							
For Space Heating	56%	47%	36%	34%	(31)	(28)	(9)
For Diesel Fuel	21%	26%	35%	39%	111	54	10
Residual Used							
For Heating	23%	17%	NC	NC	NC	NC	NC

(NC: Not Comparable because data bases were changed in 1979.)
(*) Gasoline data are for 1986, distillate and resid for 1985.

for space heating accounted for almost half of the industry's volume of 1.2-billion bbls. The bulk of this was in the Middle Atlantic and New England states. Today, residential space heating accounts for about one-third of that billion-barrel volume, with most of the loss in the East. Ironically, more distillate is consumed as diesel fuel now than for residential home heating needs. This is a trend that is expected to accelerate as the space heating market contracts further.

Similarly, residual demand exceeded 1-billion bbl. in 1979 while today it is significantly less than half of that. Environmental pressures to cleanse the air of sulfurs and other contaminants contributed heavily to residual's downfall as well as price rises that all but eliminated the economic advantages of heavy oils.

Accompanying these big-volume decreases in consumption were vast changes in retail and wholesale marketing of fuel oils. In the late '70s, distillate heating oil, for example, was distributed by thousands of small to medium-sized firms, many of them neighborhood and "Mom and Pops." The biggest one was Meenan Oil, which operated primarily in the greater New York area but did reach over into Pennsylvania. It was considered a "giant" for an independent because it had more than 100,000 retail customers.

Today, Meenan is outranked by Petro Heat & Power, of Stamford, Conn., whose retail volume is well above 250-million gal. year. Petro was the all-but-bankrupt firm that Irik Sevin used as his flagship for an acquisition program that was almost spellbinding. In three or four years, he has bought more than five dozen firms.

One that got by him was Chevron's sale of four substantial heating oil jobberships in Connecticut, New York, Pennsylvania and Maryland. This is where Champion Oil's Mahmoud Wahba slipped in and grabbed 80,000 household accounts, establishing himself as a force to be reckoned with from now on. Wahba went from 40-million gal. to 100-million overnight; currently he's past 120-million and shooting for 150-million—meaning he's in the market too for acquisitions in the lower New England and New York State arenas.

Meenan also has added many firms and much gallonage to its operations as did Whaleco, nominally a Brooklyn-based metropolitan area firm. Whaleco moved up into Connecticut and lower New England in recent years with the surprise purchase of the fuel oil assets of a retreating Ultramar America.

Ultramar was a saga in its own right. It bought Metropolitan Petroleum Corp. from Pittston Corp. in 1983 for $100-million and disclosed grandiose plans for a gasoline and fuel oil expansion in New England to utilize excess product from the Montreal refinery of its Canadian sister company. What went sour on the concept has never been disclosed but Ultramar suddenly sold off Metropolitan and all but faded from the retail scene.

Also pretty well memory book items are the "big three" of super-jobberships —Gibbs Oil, R.J. Sousa & Sons and Northeast Petroleum, then owned by the Kaneb Brothers. Gibbs sold off some of its assets and was renamed Astroline. Sousa, beset by family difficulties, sold off its retail assets to Getty. Northeast first went to Charter and is now owned by Cargill.

Atlantic Dry Holes

While all these land-based developments were continuing to reshape marketing on the East Coast, oil companies took a multi-billion plunge into the cold waters of the Atlantic itself.

Never really regarded as prime territory for exploration and development but promoted by the federal government as a probable treasure chest of oil and gas, the Atlantic waters from lower Newfoundland to the offshore reaches of Florida turned out to be virtually barren.

In all, 40 deep-water holes were drilled in the Baltimore Canyon off New Jersey and the Georges Bank off New England's famous Cape Cod. Only five had showings of oil or gas—not enough, however, to justify commercial development. All of the dry hole ventures cost the oil companies close to $3-billion before they finally gave up.

Of the various attempts to build refineries in the midlands and New England areas in recent years, probably the most disheartening was that of Pittston Corp., which tried for 10 years to get approval for a big facility at Eastport, Me. Environmentalists strewed everything from whales to bald eagles in its pathway. Many New Englanders avidly sought not only a refinery or two but federal crude oil storage depots to hedge against crippling shortages.

There were proposals for refinery construction in Hampton Roads, Va., the metropolitan Washington district, Baltimore, Md., and, of course, the upper New England area. All of these died on the vine; about the only one that made it from the ground up was a 44,000 b/d plant at Paulsboro, N.J. Amerada Hess spent a lot of money rehabilitating its old refinery at Port Reading, N.J., but then declining consumption and excess operable capacity almost everywhere literally forced this one back on the shelf again.

Divorcement Heartburns

Maryland, in 1980, passed one of the stiffest divorcement laws in the nation. It barred supplier ownership-operation of service stations, driving many of the brand names out of the state. Florida is in the throes of stiff divorcement laws now and Georgia retailers and jobbers alike have been trying to get something on the books there too. They've won their fights two or three times in the legislature but have been overruled by the courts and/or gubernatorial vetoes.

Looking Ahead

Is there any slowdown in sight for the East Coast marketplace? Well, consider, for instance, that Coastal Oil which owns the Belcher companies from Florida to New England only recently signalled that it wants to become a contender in the same area with its Derby brand [*NPN*—Feb. '87, p38].

It's looking to buy maybe 100 or so retail outlets a year. That's not a big movement. But—considering that Atlantic, Cumberland Farms, Getty and others like them are actively looking for service stations and that Petro, Meenan and Whaleco have their eyes open for fuel oil opportunities—the times ahead cannot be less than volatilely interesting. Another contender in the background at this moment could be Catamount Petroleum in the Boston area, which is owned by entrepreneur John Kaneb, former owner of Northeast Petroleum. He's back in business and quietly expanding staff and volumes.

Southland, the nation's biggest C-store chain, has been negotiating with Northville Industries, one of the biggest terminals in the East, for a possible tie-in which could eventually see Northville gasoline at 7-Eleven stores up and down the Coast.

Where's all this leading? It's anybody's guess, but one thing is certain: The marketplace is going to be anything but serene.

"As it is now," said one observer, "you almost have to have a box score program just to keep up with the changes that already have taken place. There's a whole new way of doing things in the making out there." NPN